

BRECKINRIDGE COUNTY SCHOOL DISTRICT

REPORT ON AUDIT OF COMPREHENSIVE
ANNUAL FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED JUNE 30, 2003

BRECKINRIDGE COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Breckinridge County Board of Education
Hardinsburg, Kentucky

We have audited the accompanying basic financial statements of the Breckinridge County School District (District) as of June 30, 2003 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note B to the basic financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statements Nos. 33 and 34 and GASB Interpretation 6 as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Breckinridge County School District as of June 30, 2003 and the results of its operations and the cash flows of its business-type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2003, on our consideration of Breckinridge County School District's internal controls over financial reporting.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information shown on pages 36 through 45 and the accompanying Schedule of Expenditures of Federal Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole, except that the statements of receipts, disbursements, and fund balances of the school activity funds on pages 38 through 43 are presented on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended for the information of the Board of Education, the Kentucky Department of Education, and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Drane & Company, PLLC
Certified Public Accountants

November 12, 2003

BRECKINRIDGE COUNTY SCHOOL DISTRICT – HARDINSBURG, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2003

As management of the Breckinridge County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$8,497,932.63.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in several economies due to changed management strategies.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need. The Board restricted \$2,148,000 to capital projects.
- The board initiated no new major construction projects in fiscal 2003.
- Due to the decline of interest rates, interest income fell \$400,000; that is an 80 percent decrease.
- During fiscal 2003, the District was impacted by a loss in SEEK revenue, interest revenue and decline in student enrollment. We anticipate flat to falling revenue in fiscal 2004 due to shortfall in state revenue and a slight decline in enrollment.
- The General Fund had \$13.3 million in revenue, which primarily consisted of the state program (SEEK), property, local, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$12.2 million in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district’s total debt decreased by \$830,270 during the current fiscal year.
- The district refinanced the 1994 bond issue for the high school, which resulted in a long-term savings of \$33,000 a year for the next 16 years or \$528,000 total.
- State law requires districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. To be eligible to share in that money, the district updated and received approval of a new facilities plan.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 - 9 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operation. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 - 18 of this report.

NOTES TO THE FINANCIAL STATEMENTS

. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$19,312,855 as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NET ASSETS FOR THE YEAR ENDED JUNE 30, 2003

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year would be misleading to the reader; however, the district looks forward to offering comparative data in the future.

Current Assets	\$ 10,925,274
Noncurrent Assets	<u>22,158,948</u>
Total Assets	<u>\$ 33,084,222</u>
Current Liabilities	\$ 3,083,834
Noncurrent Liabilities	<u>10,687,533</u>
Total Liabilities	<u>\$ 13,771,367</u>
Net Assets	
Investment in capital assets (net of debt)	\$ 11,324,562
Restricted	323,253
Unreserved Fund Balance	<u>7,665,040</u>
Total Net Assets	<u>\$ 19,312,855</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The district implemented GASB 34 and recorded fixed assets and debt for the first time.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2003, net of interfund transfers, were \$18,381,480.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$516,671 more than budget.
- The total cost of all programs and services was \$17,752,999, net of debt service.
- General fund budget expenditures to actual varied significantly in district administrative support (\$1.8 million). This resulted from contingencies totaling \$1.7 million.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2003.

Revenues:	
Local revenue sources	\$ 3,849,020
State revenue sources	10,975,630
Federal revenue	2,825,638
Investments	102,329
Other sources	<u>628,863</u>
Total revenues	<u>18,381,480</u>
Expenses:	
Instruction	9,433,739
Student support services	453,076
Instructional support	435,389
District administration	920,586
School administration	1,061,029
Business support	145,443
Plant operations	1,390,265
Student transportation	867,156
Central office support	223,707
Community support	350,342
Food service	1,068
Capital outlay	1,640,928
Payment of principal	369,219
Payment of interest	<u>461,052</u>
Total expenses	<u>17,752,999</u>
Revenues in excess of expenses	<u>\$ 628,481</u>

General Fund Revenue

The majority of Revenue was derived from state funding (70%) with local taxes making up 24% of total revenue.

School Allocation

Regular Instruction accounted for 75% of the school level expenditures.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1,783,346 in contingency (14%). Board action that impacts the finances include a 2.7% pay raise for all employees, Irvington Head Start Classrooms, Hardinsburg Primary Canopy, Breckinridge County High School football field lights, decrease in enrollment and continued low interest rates received on cash assets.

Questions regarding this report should be directed to Superintendent Wayne Puckett (270)756-3000 or to Mary Edward Henning, Finance Officer (270)756-3118 or by mail at P.O. Box 148, Hardinsburg, KY 40143.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 9,526,913	\$ 525,848	\$ 10,052,761
Accounts receivable:			
Taxes	130,043	-	130,043
Other	17,112	-	17,112
Intergovernmental	463,180	-	463,180
Inventory	-	42,149	42,149
Prepaid expenses	220,029	-	220,029
Total Current Assets	10,357,277	567,997	10,925,274
Noncurrent Assets			
Capital assets	37,040,508	784,664	37,825,172
Less: accumulated depreciation	(15,154,690)	(511,534)	(15,666,224)
Total Noncurrent Assets	21,885,818	273,130	22,158,948
Total Assets	32,243,095	841,127	33,084,222
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	254,259	12,026	266,285
Accrued payroll and related expenses	1,558,316	64,601	1,622,917
Deferred revenues	558,984	-	558,984
Current portion of bond obligations	492,752	-	492,752
Interest payable	142,896	-	142,896
Total Current Liabilities	3,007,207	76,627	3,083,834
Noncurrent Liabilities			
Noncurrent portion of bond obligations	10,341,634	-	10,341,634
Noncurrent portion of accrued sick leave	345,899	-	345,899
Total Noncurrent Liabilities	10,687,533	-	10,687,533
Total Liabilities	13,694,740	76,627	13,771,367
<u>Net Assets</u>			
Invested in capital assets, net of related debt	11,051,432	273,130	11,324,562
Restricted for capital projects	323,253	-	323,253
Unrestricted	7,173,670	491,370	7,665,040
Total Net Assets	\$ 18,548,355	\$ 764,500	\$ 19,312,855

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Instruction	\$ 10,881,997	\$ 188,562	\$ 13,309,154	\$ -	\$ 2,615,719	\$ -	\$ 2,615,719
Support services:							
Student	616,522	8,096	-	-	(608,426)	-	(608,426)
Instructional staff	501,593	-	-	-	(501,593)	-	(501,593)
District administration	993,734	2,169	-	-	(991,565)	-	(991,565)
School administration	1,208,528	-	-	-	(1,208,528)	-	(1,208,528)
Business	169,453	-	-	-	(169,453)	-	(169,453)
Plant operations and maintenance	1,481,392	3,229	-	686,056	(792,107)	-	(792,107)
Student transportation	964,236	69,180	-	-	(895,056)	-	(895,056)
Central office	261,685	-	-	-	(261,685)	-	(261,685)
Community services	397,900	-	-	-	(397,900)	-	(397,900)
Food service	1,241	-	-	-	(1,241)	-	(1,241)
Interest on long-term debt	454,132	-	-	-	(454,132)	-	(454,132)
Depreciation	1,324,337	-	-	-	(1,324,337)	-	(1,324,337)
Total governmental activities	19,256,750	271,236	13,309,154	686,056	(4,990,304)	-	(4,990,304)
Business-Type Activities							
Food service	1,265,154	442,240	820,577	-	-	(2,337)	(2,337)
Total business-type activities	1,265,154	442,240	820,577	-	-	(2,337)	(2,337)
Total primary government	\$ 20,521,904	\$ 713,476	\$ 14,129,731	\$ 686,056	\$ (4,990,304)	\$ (2,337)	\$ (4,992,641)
General Revenues							
Taxes:							
Property					\$ 2,515,137	\$ -	\$ 2,515,137
Motor vehicle					518,436	-	518,436
Utility					570,378	-	570,378
Interest income					102,329	4,824	107,153
State aid - formula grants					2,254,182	-	2,254,182
Other income					508,566	-	508,566
Special Item							
Gain on sale of fixed assets					52,902	-	52,902
Total general revenues and special item					6,521,930	4,824	6,526,754
Changes in net assets					1,531,626	2,487	1,534,113
Net assets - beginning of year					17,016,729	762,013	17,778,742
Net assets - end of year					\$18,548,355	\$ 764,500	\$19,312,855

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General Fund	Special Revenue (Grant) Funds	Capital Project Funds	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 8,301,516	\$ 712,131	\$ 513,266	\$ 9,526,913
Accounts receivable:				
Taxes	130,043	-	-	130,043
Other	17,112	-	-	17,112
Intergovernmental	1,753	461,427	-	463,180
Prepaid expenses	201,816	18,213	-	220,029
Due from other funds	250,000	-	-	250,000
Total Assets	<u>\$ 8,902,240</u>	<u>\$ 1,191,771</u>	<u>\$ 513,266</u>	<u>\$ 10,607,277</u>
<u>Liabilities</u>				
Accounts payable	\$ 242,179	\$ 12,080	\$ -	\$ 254,259
Accrued payroll and related expenses	1,187,609	370,707	-	1,558,316
Due to other funds	-	250,000	-	250,000
Deferred revenues	-	558,984	-	558,984
Total Liabilities	<u>1,429,788</u>	<u>1,191,771</u>	<u>-</u>	<u>2,621,559</u>
<u>Fund Balances</u>				
Reserved	5,247,252	-	513,266	5,760,518
Unreserved	2,225,200	-	-	2,225,200
Total Fund Balances	<u>7,472,452</u>	<u>-</u>	<u>513,266</u>	<u>7,985,718</u>
Total Liabilities and Fund Balances	<u>\$ 8,902,240</u>	<u>\$ 1,191,771</u>	<u>\$ 513,266</u>	<u>\$ 10,607,277</u>

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

Total Governmental Fund Balances **\$ 7,985,718**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. 21,885,818

Certain liabilities, such as bond obligations, accrued sick leave, and interest payable, are not due and payable in the current period and therefore are not reported in the governmental funds. (11,323,181)

Total Net Assets of Governmental Activities **\$ 18,548,355**

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Special Revenue (Grant) Funds	Capital Project Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,163,241	\$ -	\$ 351,896	\$ 2,515,137
Motor vehicle	518,436	-	-	518,436
Utility	570,378	-	-	570,378
Tuition	86,025	102,537	-	188,562
Transportation reimbursement	56,507	-	-	56,507
Interest income	102,329	-	-	102,329
Other income	485,033	143,830	-	628,863
Intergovernmental - state	9,363,947	#####	586,245	10,975,630
Intergovernmental - indirect federal	-	#####	-	1,650,627
Intergovernmental - direct federal	7,843	#####	-	1,175,011
Total Revenues	13,353,739	#####	938,141	18,381,480
Expenditures				
Current:				
Instruction	6,476,171	#####	15,661	9,433,739
Support services:				
Student	306,104	146,972	-	453,076
Instructional staff	219,211	216,178	-	435,389
District administration	786,735	133,851	-	920,586
School administration	945,929	115,100	-	1,061,029
Business	145,443	-	-	145,443
Plant operations and maintenance	1,390,138	127	-	1,390,265
Student transportation	819,649	47,507	-	867,156
Central office	223,707	-	-	223,707
Community services	-	350,342	-	350,342
Food service	1,068	-	-	1,068
Capital outlay	857,668	271,522	511,738	1,640,928
Debt service:				
Payment of principal	29,030	-	340,189	369,219
Payment of interest	14,488	-	446,564	461,052
Total Expenditures	12,215,341	#####	#####	17,752,999
Excess (Deficiency) of Revenues over Expenditures	1,138,398	(133,906)	(376,011)	628,481
Other Financing Sources (Uses)				
Operating transfers in	33,122	213,288	46,260	292,670
Operating transfers out	(213,288)	(79,382)	-	(292,670)
Total Other Financing Sources (Uses)	(180,166)	133,906	46,260	-
Special Item				
Proceeds from sale of fixed assets	52,902	-	-	52,902
Net Changes in Fund Balances	1,011,134	-	(329,751)	681,383
Fund Balances - Beginning of Year	6,342,549	-	843,017	7,185,566
Prior period adjustment	118,769	-	-	118,769
Fund Balances - End of Year	\$ 7,472,452	\$ -	\$ 513,266	\$ 7,985,718

The accompanying notes are an integral part of this financial statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES

Net Changes in Fund Balances - Total Governmental Funds \$ 681,383

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the
Statement of Activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by
which capital outlay exceeded depreciation in the current period. 316,591

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net
Assets and does not affect the Statement of Activities. 369,219

Interest is recorded as an expenditure when due in the governmental funds,
and as it accrues in the Statement of Activities. The reduced amount of
interest reported in the Statement of Activities is the result of a decrease
in accrued interest on bonds and leases payable. 6,920

In the Statement of Activities, sick leave is measured by the amount earned
during the year. In governmental funds, however, expenditures for this
item are measured by the amount actually paid. 57,702

In the Statement of Activities, the portion of debt paid by the School Facility
Construction Commission is included in program revenues. 99,811

Change in net assets of governmental activities #####

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources:				
Taxes:				
Property	\$ 1,915,879	\$1,920,879	\$2,163,241	\$ 242,362
Motor vehicle	470,000	470,000	518,436	48,436
Utility taxes	520,000	520,000	570,378	50,378
Tuition and textbook fees	85,000	85,000	86,025	1,025
Transportation reimbursement	25,000	25,000	56,507	31,507
Interest income	200,000	200,000	102,329	(97,671)
Other income	301,858	311,858	485,033	173,175
Intergovernmental - state	8,972,505	9,299,331	9,363,947	64,616
Intergovernmental - direct federal	5,000	5,000	7,843	2,843
Total Revenues	<u>12,495,242</u>	<u>12,837,068</u>	<u>13,353,739</u>	<u>516,671</u>
Expenditures				
Instruction	6,768,591	6,874,522	6,476,171	398,351
Support services:				
Student	346,978	316,480	306,104	10,376
Instructional staff	243,745	222,207	219,211	2,996
District administration	2,622,888	2,655,439	786,735	1,868,704
School administration	972,187	1,109,207	945,929	163,278
Business	17,257	145,918	145,443	475
Plant operations and maintenance	1,905,555	2,294,712	1,390,138	904,574
Student transportation	1,214,617	1,270,841	819,649	451,192
Central office	224,295	230,563	223,707	6,856
Food service	2,475	2,535	1,068	1,467
Capital outlay	-	220,000	857,668	(637,668)
Debt service:				
Payment of principal	-	-	29,030	(29,030)
Payment of interest	-	-	14,488	(14,488)
Total Expenditures	<u>14,318,588</u>	<u>15,342,424</u>	<u>12,215,341</u>	<u>3,127,083</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,823,346)</u>	<u>(2,505,356)</u>	<u>1,138,398</u>	<u>3,643,754</u>
Other Financing Sources (Uses)				
Operating transfers in	40,000	40,000	33,122	(6,878)
Operating transfers out	-	-	(213,288)	(213,288)
Total Other Financing Sources (Uses)	<u>40,000</u>	<u>40,000</u>	<u>(180,166)</u>	<u>(220,166)</u>
Special Item				
Proceeds from sale of fixed assets	-	-	52,902	52,902
Net Changes in Fund Balance	<u>(1,783,346)</u>	<u>(2,465,356)</u>	<u>1,011,134</u>	<u>3,476,490</u>
Fund Balance - Beginning of Year	<u>6,342,549</u>	<u>6,342,549</u>	<u>6,342,549</u>	<u>-</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>118,769</u>	<u>118,769</u>
Fund Balance - End of Year	<u>\$ 4,559,203</u>	<u>\$3,877,193</u>	<u>\$7,472,452</u>	<u>\$ 3,595,259</u>

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2003

	<u>Enterprise Fund</u>
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 525,848
Inventory	<u>42,149</u>
Total Current Assets	<u>567,997</u>
Noncurrent Assets	
Capital assets	784,664
Less: accumulated depreciation	<u>(511,534)</u>
Total Noncurrent Assets	<u>273,130</u>
Total Assets	<u><u>\$ 841,127</u></u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	\$ 12,026
Accrued payroll	<u>64,601</u>
Total Current Liabilities	<u>76,627</u>
<u>Net Assets</u>	
Invested in capital assets	273,130
Unrestricted	<u>491,370</u>
Total Net Assets	<u>764,500</u>
Total Liabilities and Net Assets	<u><u>\$ 841,127</u></u>

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Enterprise Fund
Operating Revenues	
Lunchroom sales	\$ 441,211
Other operating revenues	1,029
Total Operating Revenues	<u>442,240</u>
Operating Expenses	
Salaries and wages	524,832
Contract services	52,033
Materials and supplies	640,147
Depreciation	44,693
Other operating expenses	3,449
Total Operating Expenses	<u>1,265,154</u>
Operating Loss	<u>(822,914)</u>
Non-operating Revenues	
Federal grants	741,622
Donated commodities	78,955
Interest income	4,824
Total Non-operating Revenues	<u>825,401</u>
Change in Net Assets	2,487
Total Net Assets - Beginning of Year	745,253
Prior period adjustment	16,760
Total Net Assets - End of Year	<u><u>\$ 764,500</u></u>

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Enterprise Fund
Cash Flows from Operating Activities	
Cash received from user charges	\$ 441,211
Cash received from other operating revenues	1,029
Cash payments to employees for services	(460,231)
Cash payments for contract services	(52,033)
Cash payments to suppliers for goods and services	(564,460)
Cash payments for other operating expenses	(3,449)
Net Cash Used by Operating Activities	<u>(637,933)</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(12,130)
Federal grants	741,622
Net Cash Provided by Capital and Related Financing Activities	<u>729,492</u>
Cash Flows from Investing Activities	
Interest income	4,824
Net Increase in Cash and Cash Equivalents	96,383
Cash and Cash Equivalents - Beginning of Year	429,465
Cash and Cash Equivalents - End of Year	<u><u>\$ 525,848</u></u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (822,914)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	44,693
Commodities used	78,955
Changes in assets and liabilities:	
Increase in inventory	(14,171)
Increase in accounts payable	10,903
Increase in accrued payroll	64,601
Net Cash Used by Operating Activities	<u><u>\$ (637,933)</u></u>
Schedule of non-cash transactions	
Donated commodities received from federal government	<u><u>\$ 78,955</u></u>

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Attendance Scholarship Grant	Agency Funds
<u>Assets</u>		
Current Assets		
Cash and cash equivalents - note C	\$ 88,323	\$ 179,656
Accounts receivable	-	660
	<hr/>	<hr/>
Total Current Assets	<u>88,323</u>	<u>180,316</u>
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	-	4,415
Due to students and teachers	-	175,901
	<hr/>	<hr/>
Total Current Liabilities	<hr/>	<u>\$ 180,316</u>
<u>Net Assets</u>		
Held in trust for scholarships	<u>88,323</u>	
	<hr/>	
Total Net Assets	<u>88,323</u>	
	<hr/>	
Total Liabilities and Net Assets	<u>\$ 88,323</u>	
	<hr/>	

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Attendance Scholarship Grant
	<u> </u>
Deductions	
Scholarships	<u>\$ 4,550</u>
Changes in Net Assets	(4,550)
Net Assets - Beginning of Year	<u>92,873</u>
Net Assets - End of Year	<u><u>\$ 88,323</u></u>

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Breckinridge County Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Breckinridge County School District (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies that may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Breckinridge County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, such as Band Boosters, Parent-Teacher Associations, etc., which although associated with the school system, have not originated within the Board itself

The basic financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the basic financial statements of the following organizations are included in the accompanying basic financial statements:

Breckinridge County School District Finance Corporation

On October 22, 1991, the Breckinridge County Board of Education resolved to authorize the establishment of the Breckinridge County School District Finance Corporation (Corporation) (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency for the District for financing the costs of school building facilities. The Board Members of the Breckinridge County Board of Education also comprise the Corporation's Board of Directors.

The accounting policies of the Breckinridge County School District Finance Corporation substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPORTING ENTITY (CONTINUED)

Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than fund types. Each major fund is presented in a separate column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPORTING ENTITY (CONTINUED)

Basis of Presentation (Continued)

- (B) The Special Revenue (Grant) Fund accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund included in the Capital Project Funds accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

II. Proprietary Fund Type (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U. S. Department of Agriculture (USDA).

The District applies all GASB pronouncements to the proprietary fund as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPORTING ENTITY (CONTINUED)

Basis of Presentation (Concluded)

III. Fiduciary Fund Type (Agency Funds)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*. The District also maintains an Attendance Scholarship Grant Fund, whereby contributions and investment earnings are used to provide scholarships based on school attendance.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPORTING ENTITY (CONTINUED)

Basis of Accounting (Concluded)

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Fund as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings, which are mailed by November 1, are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. A discount is offered through November 30 and a penalty is assessed after December 31. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2003, to finance the General Fund operations were \$.425 per \$100 valuation for real property, \$.425 per \$100 valuation for business personal property and \$.557 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic communication services, cablevision services, electric power, water, and natural gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund financial statements.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPORTING ENTITY (CONTINUED)

Capital Assets (Concluded)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of workstations and theft-sensitive items, for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized, but the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	25-50 years
Land improvements	10-20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
General equipment	5-20 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due to/from other funds. Unless there are net residual amounts due between governmental and business-type activities, these amounts are eliminated in the Statement of Net Assets.

Accumulated Unpaid Sick Leave Benefits

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPORTING ENTITY (CONTINUED)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of goods or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventory

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Fund Type, which records inventory using the accrual basis of accounting. Inventory in this fund consists of food and supplies and are stated at cost.

Prepaid Expenses

Payments made that will benefit periods beyond June 30, 2003 are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

Payables, Accrued Liabilities, and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and in the proprietary fund financial statements.

In general, payables, accrued liabilities, and long-term obligations that will be paid from governmental funds are reported on the government-wide financial statements regardless of whether they will be liquidated with current resources. However, these amounts are not recognized as liabilities in the fund financial statements until due.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

REPORTING ENTITY (CONCLUDED)

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Interfund Activity

Exchange transactions between funds are reported as revenues in the "seller" funds and as expenditures/expenses in the "purchaser" funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

NOTE B - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND
BALANCE

For the fiscal year ended June 30, 2003, the District implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" (GASB 34).

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Capital project funds are nonmajor funds presented in total in one column on the fund financial statements.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002 caused by the conversion to the accrual basis of accounting.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE B - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND
BALANCE (CONCLUDED)

The School District made several changes in accounting principles during the year. For governmental activities, it began recording prepaid expenses, fixed assets and accumulated depreciation, accrued sick leave, interest payable, and bond obligations. These changes bring the District's funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance – The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General Fund	Capital Project Fund	Total
Fund Balance, June 30, 2002	\$6,342,549	\$843,017	\$ 7,185,566
Record beginning prepaid expenses	118,769	-	118,769
Adjusted Fund Balance, June 30, 2002	<u>\$6,461,318</u>	<u>\$843,017</u>	7,304,335
Capital assets less accumulated depreciation			21,569,227
Bond obligations			(11,303,416)
Accrued sick leave			(403,601)
Interest payable			<u>(149,816)</u>
Governmental Activities Net Assets, June 30, 2002			<u>\$17,016,729</u>

A fixed asset inventory taken to comply with GASB 34 revealed the existence of proprietary fixed assets that had not previously been recorded on the books. Changes to the proprietary fund as a result of the GASB 34 implementation were as follows:

	Enterprise Fund
Fund Balance, June 30, 2002	\$745,253
Additional fixed assets	<u>16,760</u>
Adjusted Fund Balance, June 30, 2002	<u>\$762,013</u>

As the proprietary fund was already on the accrual basis, no adjustments were necessary for the Statement of Net Assets.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE C - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D - CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and cash equivalents was \$10,320,740. Of the total cash balance, \$382,345 was covered by Federal depository insurance; \$10,468,273 was covered by collateral held by the pledging banks' trust departments in the District's name; and the remainder was uninsured. Cash equivalents include funds temporarily invested in securities with maturity of 90 days or less. Cash and cash equivalents at June 30, 2003, consisted of the following:

	Bank Balance	Book Balance
First State Bank – MUNIS Checking	\$10,568,273	\$9,850,326
Farmers Bank – Federal and State Tax Revolving Funds	290,758	290,758
First State Bank – School Activity Funds	182,345	179,656
	<u>\$11,041,376</u>	<u>\$10,320,740</u>

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Balance June 30, 2003
<u>Governmental Activities</u>			
Land	\$ 371,047	\$ 80,401	\$ 451,448
Land improvements	3,217,130	171,911	3,389,041
Buildings	22,602,785	870,401	23,473,186
Technology equipment	3,388,497	183,717	3,572,214
Vehicles	4,435,660	24,700	4,460,360
General equipment	1,384,461	309,798	1,694,259
Total	35,399,580	1,640,928	37,040,508
Less: accumulated depreciation	13,830,353	1,324,337	15,154,690
Capital Assets – Net	<u>\$21,569,227</u>	<u>\$ 316,591</u>	<u>\$21,885,818</u>
 <u>Business-Type Activities</u>			
Food service equipment	\$772,534	\$ 12,130	\$784,664
Less: accumulated depreciation	466,841	44,693	511,534
Capital Assets – Net	<u>\$305,693</u>	<u>\$(32,563)</u>	<u>\$273,130</u>

Depreciation expense was not allocated to governmental functions.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS

A portion of the amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Breckinridge County (Kentucky) School District Finance Corporation aggregating \$13,325,000.

The original amount of the bond issue, the issue dates, interest rates, and outstanding balance at June 30, 2003 are summarized below:

1994

Issuer	Breckinridge County (Kentucky) School District Finance Corporation
Date of first issue	February 1, 1994
Interest rates	2.75%; 3.90%; 4.45%; 5.00%; 5.25%; 5.35%
Date retiring bonds due	February 1 each year
Dates interest due	February 1 and August 1 each year
Call provisions	@ 102 from February 1, 2004 through February 1, 2009; @ 101 August 1, 2009 through February 1, 2014; and 100% thereafter to maturity
Amount of original issue	\$9,450,000
Outstanding, June 30, 2003	\$7,060,000

1999

Issuer	Breckinridge County (Kentucky) School District Finance Corporation
Date of first issue	May 1, 1999
Interest rates	4.00%; 4.10%; 4.25%; 4.30%; 4.40%; 4.50%; 4.60%; 4.65%; 4.70%; 4.75%
Date retiring bonds due	May 1 each year
Dates interest due	May 1 and November 1 each year
Call provisions	@ 101 May 1, 2009
Amount of original issue	\$2,155,000
Outstanding, June 30, 2003	\$1,860,000

2000

Issuer	Breckinridge County (Kentucky) School District Finance Corporation
Date of first issue	December 1, 2000
Interest rates	5.00%; 5.15%
Date retiring bonds due	December 1 each year
Dates interest due	December 1 and June 1 each year
Amount of original issue	\$1,720,000
Outstanding, June 30, 2003	\$1,635,000

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)

The District is obligated to make lease payments through the General Fund, which includes utility taxes, and the SEEK Capital Outlay Fund in amounts sufficient to satisfy debt service requirements on bonds issued by the Breckinridge County (Kentucky) School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

On February 1, 1994, the Breckinridge County School District issued \$9,450,000 in School Building Revenue Bonds with an average interest rate of 5.0474%. The net proceeds of \$9,242,540 (after payment of \$58,050 in fiscal agency fees and \$189,000 of discount on bonds plus \$39,590 in accrued interest) were used to provide \$9,202,950 for construction of a new high school and \$39,590 to open the Bond and Redemption Fund for the 1994 Issue.

On May 1, 1999, the Breckinridge County School District issued \$2,155,000 in School Building Revenue Bonds with an average interest rate of 4.3825%. The net proceeds of \$2,099,244 (after payment of \$25,720 in fiscal agency fees and \$38,298 of discount on bonds plus \$8,262 in accrued interest) were used to provide \$2,090,982 for construction of an addition to Custer Elementary School and \$8,262 to open the Bond and Redemption Fund for the 1999 Issue.

On December 1, 2000, the Breckinridge County School District issued \$1,720,000 in School Building Revenue Bonds with an average interest rate of 5.0793%. The net proceeds of \$1,664,490 (after payment of \$25,700 in fiscal agency fees and \$34,400 of discount on bonds plus \$4,590 in accrued interest) were used to provide \$1,238,500 for construction of an addition to Ben Johnson School, \$421,400 for renovations to Hardinsburg Primary School, and \$4,590 to open the Bond and Redemption Fund for the 2000 Issue.

In July 1985, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the government-wide financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS (CONCLUDED)

Year	DISTRICT		COMMISSION		Total
	Principal	Interest	Principal	Interest	Principal
2003-04	\$355,667	\$430,673	\$104,333	\$81,279	\$460,000
2004-05	370,908	414,022	109,092	76,521	480,000
2005-06	390,932	396,546	114,068	71,545	505,000
2006-07	410,678	378,013	119,322	66,291	530,000
2007-08	430,181	358,521	124,819	60,794	555,000
2008-09	449,386	338,078	130,614	55,000	580,000
2009-10	468,303	316,701	136,697	48,917	605,000
2010-11	491,897	294,243	143,103	42,510	635,000
2011-12	515,098	270,531	149,902	35,712	665,000
2012-13	542,794	244,853	157,206	28,406	700,000
2013-14	570,112	218,016	164,888	20,724	735,000
2014-15	596,481	189,678	48,519	12,642	645,000
2015-16	629,200	159,973	50,800	10,362	680,000
2016-17	656,787	128,736	53,213	7,948	710,000
2017-18	689,260	96,001	55,740	5,422	745,000
2018-19	726,612	61,462	58,388	2,774	785,000
2019-20	265,000	20,986			265,000
2020-21	275,000	7,080			275,000
	<u>\$8,834,296</u>	<u>\$4,324,113</u>	<u>\$1,720,704</u>	<u>\$626,847</u>	<u>\$10,555,000</u>

During the year ended June 30, 2002, the District borrowed money from the KISTA bond pool to purchase new buses. The following is a schedule by years of the future minimum obligations due as of June 30, 2003:

Year Ending June 30,	Principal	Interest
2004	\$ 32,752	\$11,643
2005	28,038	10,497
2006	29,030	9,445
2007	30,271	8,284
2008	31,512	7,035
Thereafter	127,783	14,256
Total	<u>\$279,386</u>	<u>\$61,160</u>

Changes in long-term debt were as follows:

	Balance June 30, 2002	Deletions	Balance June 30, 2003
Revenue Bonds	\$10,995,000	\$440,000	\$10,555,000
KISTA Bond	308,416	29,030	279,386
	<u>\$11,303,416</u>	<u>\$469,030</u>	<u>\$10,834,386</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE G - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a qualified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, this amount totaled \$345,899 for those eligible. Eligible employees include classified and certified personnel with 27 or more years of service and certain classified employees with 20 or more years of service. The total value of accumulated sick leave is included as a reserved portion of the general fund.

NOTE H - COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2003 as follows:

Year Ending June 30,	
2004	\$12,879
2005	12,879
2006	7,514
Total	<u>\$33,272</u>

NOTE I - RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS). Funding for the Plan is provided through payroll withholdings of 9.855% and matching State contributions. The matching contributions are paid by the federal program for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 6.34% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$12,081,736. The payroll for employees covered under KTRS was \$8,862,269, with contributions from the employees of \$873,376 and \$140,027 from the District. The District has no contribution requirement to KTRS except for federal programs.

The payroll for employees covered under CERS was \$2,984,474, with the contribution requirement of \$338,440, which consisted of \$189,216 from the District and \$149,224 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE I - RETIREMENT PLANS (CONCLUDED)

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

As the District is only one of several employers participating in the plan, it is not practical to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the plan assets.

NOTE J - COMMITMENTS AND CONTINGENCIES

The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicted upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

To take advantage of lower interest rates, the Breckinridge County School District Finance Corporation authorized the issuance of approximately \$6,805,000 in refunding revenue bonds, to be dated July 1, 2003, to retire the outstanding bonds of the 1994 issue.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain retrospectively rated policies, which include worker's compensation insurance.

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Fund.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE L - RISK MANAGEMENT (CONCLUDED)

These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING/FUND BALANCES

Except for two activity funds at one school, no funds of the District ended the year with a deficit balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance.

Construction Fund
Attendance Scholarship Grant

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of the availability of continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>
1	2	\$213,288
2	1	33,122
2	360	46,260

BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE P - RESERVED FUND BALANCES

The General Fund reserved fund balances are as follows:

Sick leave	\$ 345,899
Classified retirement matching	60,000
Site-based decision making councils	44,313
Technology	273,000
Energy inflation	150,000
Vehicle replacements	176,000
Buses	200,000
Curriculum and program development	508,065
School transition	18,000
BCHS textbooks	35,000
Encumbrances	781,485
Year-end maintenance and supplies	102,223
Section 7 technology	342,957
Elementary music labs	75,000
Kitchen update	35,000
Capital improvement and equipment	<u>2,100,310</u>
Total	<u>\$5,247,252</u>

NOTE Q - SUBSEQUENT EVENTS

Subsequent to year-end, the District solicited bids for the construction of a field house at an estimated cost of \$335,000.

SUPPLEMENTARY INFORMATION

BRECKINRIDGE COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT FUNDS
 JUNE 30, 2003

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Total Capital Project Funds
<u>Assets and Resources</u>				
Cash and cash equivalents	\$ 43,886	\$ 279,367	\$ 190,013	\$ 513,266
Total Assets and Resources	<u>43,886</u>	<u>279,367</u>	<u>190,013</u>	<u>513,266</u>
<u>Fund Balances</u>				
Reserved for capital outlay	<u>43,886</u>	<u>279,367</u>	<u>190,013</u>	<u>513,266</u>
Total Fund Balances	<u>\$ 43,886</u>	<u>\$ 279,367</u>	<u>\$ 190,013</u>	<u>\$ 513,266</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Total Capital Project Funds
Revenues				
From local sources:				
Property taxes	\$ -	\$351,896	\$ -	\$ 351,896
Intergovernmental - state	248,760	337,485	-	586,245
Total Revenues	248,760	689,381	-	938,141
Expenditures				
Contract services	15,661	-	-	15,661
Capital outlay	-	-	511,738	511,738
Debt service:				
Payment of principal	95,822	244,367	-	340,189
Payment of interest	97,837	348,727	-	446,564
Total Expenditures	209,320	593,094	511,738	1,314,152
Excess (Deficiency) of Revenues over Expenditures	39,440	96,287	(511,738)	(376,011)
Other Financing Sources				
Operating transfers in	-	-	46,260	46,260
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	39,440	96,287	(465,478)	(329,751)
Fund Balances - Beginning of Year	4,446	183,080	655,491	843,017
Fund Balances - End of Year	\$ 43,886	\$279,367	\$ 190,013	\$ 513,266

BRECKINRIDGE COUNTY SCHOOL DISTRICT
BRECKINRIDGE COUNTY HIGH SCHOOL ACTIVITY FUND
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003

Cash Balances July 1, 2002	Receipts	Disbursements	Transfers In (Out)	Cash Balances June 30, 2003	Accounts Receivable June 30, 2003	Accounts Payable June 30, 2003	Fund Balances June 30, 2003
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ACCOUNTS:

Art	\$ 141	\$ 1,723	\$ 367	\$ (351)	\$ 1,146	\$ -	\$ -	\$ 1,146
Art Club	-	-	200	325	125	-	-	125
Athletics	13,673	75,792	74,297	1,062	16,230	-	96	16,134
Concessions	6,478	34,512	21,170	(1,998)	17,822	25	-	17,847
Correspondence	4,795	10,662	11,066	-	4,391	-	-	4,391
Eleventh District Tourney	-	7,796	6,238	(1,558)	-	-	-	-
FCA	68	1,755	1,720	(100)	3	-	-	3
FEA	-	230	-	(100)	130	-	-	130
FFA	248	10,570	9,927	163	1,054	-	55	999
FHA	255	4,130	3,679	26	732	80	-	812
Flower Fund	424	1,055	1,491	12	-	-	-	-
French Club	2	-	-	-	2	-	-	2
General	4,008	68,234	67,864	116	4,494	-	120	4,374
Girls Regional	-	-	426	426	-	-	-	-
Greenhouse	-	19,900	5,529	1,100	15,471	-	-	15,471
History Club	213	-	-	-	213	-	-	213
Mock Trial	569	1,122	928	-	763	-	-	763
Music Club	-	480	200	(25)	255	-	-	255
National Honor Society	335	1,800	2,065	(35)	35	-	-	35
Newspaper	77	-	-	-	77	-	-	77
Project Graduation	149	27,959	27,658	(54)	396	250	21	625
Prom	-	3,399	4,260	861	-	-	-	-
SADD	433	1,845	1,893	(226)	159	-	-	159
Spanish Club	671	1,568	1,787	-	452	-	-	452
Student Council	884	2,630	2,586	-	928	-	-	928
Tiger Paws	7,180	-	-	-	7,180	-	-	7,180
Tigerettes	632	-	-	-	632	-	-	632
Yearbook	8,312	28,210	13,833	356	23,045	-	-	23,045
Totals	<u>\$ 49,547</u>	<u>\$ 305,372</u>	<u>\$ 259,184</u>	<u>\$ -</u>	<u>\$ 95,735</u>	<u>\$ 355</u>	<u>\$ 292</u>	<u>\$ 95,798</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
BRECKINRIDGE COUNTY MIDDLE SCHOOL ACTIVITY FUND
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003

	Cash Balances July 1, 2002	Receipts	Disbursements	Transfers In (Out)	Cash Balances June 30, 2003	Accounts Receivable June 30, 2003	Accounts Payable June 30, 2003	Fund Balances June 30, 2003
ACCOUNTS:								
Academic	\$ -	\$ 326	\$ 1,354	\$ 1,500	\$ 472	\$ -	\$ -	\$ 472
Adult Coffee Account	-	231	505	300	26	-	-	26
Athletic	583	12,585	9,291	-	3,877	-	1,842	2,035
Art	64	1,000	958	-	106	-	-	106
Bookstore	499	112	-	-	611	-	-	611
Cheerleader	2,540	3,430	2,708	-	3,262	-	-	3,262
Concessions	1,935	11,640	6,930	(4,275)	2,370	-	-	2,370
Drama Club	296	238	45	-	489	-	-	489
Flower Fund	407	300	508	-	199	-	-	199
General Fund	19,554	9,469	19,634	4,239	13,628	-	721	12,907
Gym Rent	70	385	-	(455)	-	-	-	-
Interest	35	343	-	(355)	23	-	-	23
Junior Beta Club	612	-	-	-	612	-	-	612
Library	924	3,459	2,315	-	2,068	-	30	2,038
Middle School Band	988	2,100	3,588	500	-	-	-	-
Middle School Football	168	626	912	1,118	1,000	-	-	1,000
Pictures	100	2,207	-	(2,000)	307	-	-	307
Student Activity	531	-	-	(531)	-	-	-	-
Student Council	616	-	307	-	309	-	-	309
Telephone	31	10	-	(41)	-	-	-	-
Yearbook	2,000	9,832	4,880	-	6,952	-	-	6,952
Gifted Program	321	14,338	14,489	-	170	-	-	170
Totals	<u>\$ 32,274</u>	<u>\$ 72,631</u>	<u>\$ 68,424</u>	<u>\$ -</u>	<u>\$ 36,481</u>	<u>\$ -</u>	<u>\$ 2,593</u>	<u>\$ 33,888</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
 BEN JOHNSON ELEMENTARY SCHOOL ACTIVITY FUND
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2003

Cash Balances July 1, 2002	Receipts	Disbursements	Transfers In (Out)	Cash Balances June 30, 2003	Accounts Receivable June 30, 2003	Accounts Payable June 30, 2003	Fund Balances June 30, 2003
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ACCOUNTS:

General	\$ 1,834	\$ 1,082	\$ 3,232	\$ 2,971	\$ 2,655	\$ -	\$ 208	\$ 2,447
Bookstore	282	147	34	-	395	-	-	395
Teachers	2,919	18,967	17,380	(160)	4,346	146	-	4,492
Concessions	1,299	4,447	3,179	(1,537)	1,030	-	-	1,030
Academic	160	254	528	114	-	-	-	-
Athletic	120	-	124	4	-	-	-	-
Cheerleaders	126	-	120	(4)	2	-	-	2
Flowers	206	44	204	200	246	-	-	246
Interest	74	163	-	(226)	11	-	-	11
Library	1,427	2,812	2,230	248	2,257	-	39	2,218
Micro Society	1,839	957	1,945	-	851	-	8	843
Pictures	-	777	-	(777)	-	-	-	-
Technology	939	691	1,253	1,000	1,377	-	-	1,377
Yearbook	136	3,084	2,262	(633)	325	-	-	325
Gym Rental	163	3,044	1,019	(1,200)	988	-	-	988
Totals	<u>\$ 11,524</u>	<u>\$ 36,469</u>	<u>\$ 33,510</u>	<u>\$ -</u>	<u>\$ 14,483</u>	<u>\$ 146</u>	<u>\$ 255</u>	<u>\$ 14,374</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
CUSTER ELEMENTARY SCHOOL ACTIVITY FUND
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003

	Cash Balances July 1, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable June 30, 2003	Accounts Payable June 30, 2003	Fund Balances June 30, 2003
ACCOUNTS:							
Academic Account	\$ 567	\$ 1,022	\$ 1,017	\$ 572	\$ -	\$ -	\$ 572
Bookstore	7	-	-	7	-	-	7
Concessions and Ball	-	1,648	323	1,325	-	-	1,325
Flower Fund	90	753	733	110	-	-	110
General	2,451	10,331	8,910	3,872	-	140	3,732
Gym Rent	284	210	97	397	159	-	556
Historical Society	-	421	421	-	-	-	-
Library	1,139	5,925	5,191	1,873	-	150	1,723
Music	67	81	-	148	-	-	148
Panther Express News	138	71	87	122	-	-	122
Pictures	1,262	1,073	1,815	520	-	-	520
Read-a-Thon	2,646	2,625	5,271	-	-	-	-
Yearbook	-	1,159	1,159	-	-	-	-
Coke	1,445	2,733	2,325	1,853	-	-	1,853
Totals	<u>\$ 10,096</u>	<u>\$ 28,052</u>	<u>\$ 27,349</u>	<u>\$ 10,799</u>	<u>\$ 159</u>	<u>\$ 290</u>	<u>\$ 10,668</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
HARDINSBURG ELEMENTARY SCHOOL ACTIVITY FUND
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003

	Cash Balances July 1, 2002	Receipts	Disbursements	Transfers In (Out)	Cash Balances June 30, 2003	Accounts Receivable June 30, 2003	Accounts Payable June 30, 2003	Fund Balances June 30, 2003
ACCOUNTS:								
Bookstore	\$ 1,000	\$ 198	\$ 231	\$ (467)	\$ 500	\$ -	\$ -	\$ 500
Concessions	-	10,537	7,096	(3,441)	-	-	-	-
Drink Machine	-	2,935	1,690	(1,245)	-	-	-	-
Field Trip	-	2,432	2,069	(362)	1	-	-	1
Flower Fund	698	250	557	-	391	-	-	391
General Fund	8,840	1,950	12,758	5,071	3,103	-	-	3,103
Gym Rent	-	2,250	50	(2,200)	-	-	-	-
Instructional	11,114	12	7,696	1,903	5,333	-	-	5,333
Interest	2,311	217	-	-	2,528	-	-	2,528
Library	316	4,157	4,335	-	138	-	-	138
Pictures	-	1,625	-	(1,625)	-	-	-	-
Classes	924	817	2,795	2,366	1,312	-	-	1,312
Yearbook	936	6,027	6,534	-	429	-	-	429
Totals	<u>\$ 26,139</u>	<u>\$ 33,407</u>	<u>\$ 45,811</u>	<u>\$ -</u>	<u>\$ 13,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,735</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
 IRVINGTON ELEMENTARY SCHOOL ACTIVITY FUND
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2003

Cash Balances July 1, 2002	Receipts	Disbursements	Transfers In (Out)	Cash Balances June 30, 2003	Accounts Receivable June 30, 2003	Accounts Payable June 30, 2003	Fund Balances June 30, 2003
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ACCOUNTS:

Academic	\$ 20	\$ 40	\$ 266	\$ 206	\$ -	\$ -	\$ -	\$ -
Annual	633	7,472	5,088	(266)	2,751	-	-	2,751
Athletic	-	-	658	658	-	-	36	(36)
Bookstore	215	1,594	1,724	-	85	-	-	85
Cheerleading	-	335	224	(111)	-	-	-	-
Fall Festival	-	45,438	30,412	(15,026)	-	-	-	-
Flowers	121	280	456	55	-	-	-	-
Facility Rental	-	2,796	416	(2,323)	57	-	-	57
Interest	-	197	-	(189)	8	-	-	8
Library	714	6,677	7,734	502	159	-	9	150
General	2,179	22,938	29,440	8,678	4,355	-	512	3,843
Teacher's Lounge	-	1,584	521	(55)	1,008	-	-	1,008
Teachers	-	43	7,928	7,885	-	-	428	(428)
Student Break	14	-	-	(14)	-	-	-	-
	<u>14</u>	<u>-</u>	<u>-</u>	<u>(14)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 3,896</u>	<u>\$ 89,394</u>	<u>\$ 84,867</u>	<u>\$ -</u>	<u>\$ 8,423</u>	<u>\$ -</u>	<u>\$ 985</u>	<u>\$ 7,438</u>

FINANCIAL STATUS REPORT

(Long Form)

(Follow instructions on the back)

1. Federal Agency and Organizational Element to Which Report is Submitted Dept of Child Dev		2. Federal Grant or Other Identifying Number Assigned By Federal Agency 04CH2675/33		OMB Approval No. 0348-0039	Page of pages
3. Recipient Organization (Name and complete address, including ZIP code) Breckinridge County Board of Education P.O. Box 148, Hardinsburg, KY 40143					
4. Employer Identification Number 61-6001288		5. Recipient Account Number or Identifying Number N/A		6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No	
7. Basis <input checked="" type="checkbox"/> Cash <input type="checkbox"/> Accrual					
8. Funding/Grant Period (See instructions) From: (Month, Day, Year) 07-01-02		To: (Month, Day, Year) 06-30-03		9. Period Covered by this Report From: (Month, Day, Year) 07-01-02 To: (Month, Day, Year) 06-30-03	
10. Transactions		i Previously Reported		ii This Period	
				iii Cumulative	
a. Total outlays				1,232,446.00	
b. Refunds, rebates, etc.				0	
c. Program income used in accordance with the deduction alternative				0	
d. Net outlays (Line a, less the sum of lines b and c)				1,232,446.00	
Recipient's share of net outlays, consisting of:				249,622.00	
e. Third party (in-kind) contributions				0	
f. Other Federal awards authorized to be used to match this award				0	
g. Program income used in accordance with the matching or cost sharing alternative				0	
h. All other recipient outlays not shown on lines e, f or g				0	
i. Total recipient share of net outlays (Sum of lines e, f, g and h)				249,622.00	
j. Federal share of net outlays (line d less line i)				982,824.00	
k. Total unliquidated obligations				15,665.00	
l. Recipient's share of unliquidated obligations				0	
m. Federal share of unliquidated obligations				15,665.00	
n. Total Federal share (sum of lines j and m)				998,489.00	
o. Total Federal funds authorized for this funding period				998,489.00	
p. Unobligated balance of Federal funds (Line o minus line n)				0	
Program income, consisting of:					
q. Disbursed program income shown on lines c and/or g above					
r. Disbursed program income using the addition alternative					
s. Undisbursed program income					
t. Total program income realized (Sum of lines q, r and s)					
11. Indirect Expense		a. Type of Rate (Place "X" in appropriate box) <input type="checkbox"/> Provisional <input type="checkbox"/> Predetermined <input checked="" type="checkbox"/> Final <input type="checkbox"/> Fixed			
		b. Rate N/A			
		c. Base N/A			
		d. Total Amount N/A			
		e. Federal Share N/A			
12. Remarks. Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation: Admin Cost - 70,252.72 Handicap - 13,650.00 T&TAS - 16,192.78					
13. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.					
Typed or Printed Name and Title: Michael Simpson, Director				Telephone (Area code, number and extension): (270) 756-3000	
Signature of Authorized Certifying Official: 				Date Report Submitted: 10-6-03	

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269-104

200-498 P.O. 139 (Face)

Standard Form 269 (Rev. 7-97)
Prescribed by OMB Circulars A-102 and A-110

BRECKINRIDGE COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2003

<u>Board Members</u>	<u>Address</u>	<u>Term Expires</u>
Wayne Fentress, Chairman	Hardinsburg, KY	January, 2005
Allen Cole, Vice Chairman	Irvington, KY	January, 2007
Tommy Riggs*	Big Spring, KY	January, 2003
Joe Hobbs	Harned, KY	January, 2005
Gwen Powell	Hardinsburg, KY	January, 2005
Tina Ford	Custer, KY	January, 2007

*Resigned; succeeded by Tina Ford

Administrative Personnel

Wayne Puckett, Superintendent

Larry Frank, Assistant Superintendent and Secretary to the Board

Richard Butler, Assistant Superintendent

Mary Edward Henning, Treasurer and Finance Officer



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Hardinsburg, Kentucky 40143

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e-mail dgdcpa@bbtel.com

REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Kentucky State Committee for School District Audits
Members of the Board of Education
Breckinridge County School District
Hardinsburg, Kentucky

We have audited the basic financial statements of Breckinridge County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated November 12, 2003. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Breckinridge County School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance with specific state statutes or regulations identified in the auditor contract or that are required to be reported under *Government Auditing Standards*. This instance is identified on page 54.

Internal Controls over Financial Reporting

In planning and performing our audit, we considered Breckinridge County School District's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal controls over financial reporting. However, we noted a certain matter described on page 53 involving the internal controls operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our opinion, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that would also be considered material weaknesses. However, we noted one matter described on page 53 involving the internal controls over financial reporting and its operation that we consider to be a material weakness. We also noted other matters involving the internal controls over financial reporting that we have reported to the management of the Breckinridge County School District in a separate letter dated November 12, 2003.

This report is intended for the information of the Board of Education, the Kentucky Department of Education, and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Drane & Company, PLLC
Certified Public Accountants

November 12, 2003



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROLS OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Breckinridge County School District
Hardinsburg, Kentucky

Compliance

We have audited the compliance of Breckinridge County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Breckinridge County School District's major federal programs are identified in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Breckinridge County School District's management. Our responsibility is to express an opinion on Breckinridge County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Breckinridge County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Breckinridge County School District's compliance with those requirements.

In our opinion, Breckinridge County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Controls over Compliance

The management of Breckinridge County School District is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Breckinridge County School District's internal controls over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls over compliance in accordance with the OMB Circular A-133.

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal controls that might be material weaknesses. A material weakness is a condition in which the design or operation of one of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, the Kentucky Department of Education, regulatory agencies, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Drane & Company, PLLC
Certified Public Accountants

November 12, 2003

BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Local Code	Federal Expenditures
U.S. Department of Child Development			
Direct Programs:			
* Head Start	93.600	655X	\$1,232,446
Total U.S. Department of Child Development			<u>1,232,446</u>
U.S. Department of Agriculture			
Passed Through State Department of Education:			
* National School Lunch	10.555		540,079
School Breakfast Program	10.553		197,497
State Matching	99.999		19,717
Passed Through State Department of Agriculture:			
In-Kind Commodities	10.550		<u>78,955</u>
Total U.S. Department of Agriculture			<u>836,248</u>
U.S. Department of Labor			
Passed Through Lincoln Trail Area Development District:			
Lincoln Trail Workforce Act	17.255	001X	<u>100,197</u>
Total U.S. Department of Labor			<u>100,197</u>
U. S. Department of Education			
Passed Through State Department of Education:			
* Title I Grants to Local Educational Agencies	84.010	310X	657,370
Migrant Education - Basic State Grant Program	84.011	311X	86,217
* Special Education - Grants to States	84.027	337X	312,440
Vocational Education - Basic Grants to States	84.048	348X	395
Eisenhower Professional Development-Federal	84.168	404X	19,424
* Special Education - Preschool Grants	84.173	343X	14,676
Safe and Drug-Free Schools and Communities	84.184	406X	3,055
Even Start - State Educational Agencies	84.213	323X	82,118
Eisenhower Professional Development State Grants	84.281	401X	155,929
Innovative Education Program Strategies	84.298	331X	25,987
Technology Literacy Challenge Grants	84.318	425X	46,466
Gear-Up	84.334	371X,379X	73,299
Class Size Reduction	84.340	388X	<u>18,999</u>
Total U.S. Department of Education			<u>1,496,375</u>
Total			<u><u>\$3,665,266</u></u>

* Denotes major program

BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Breckinridge County School District.
2. A reportable condition was reported in the Report on Compliance and on Internal Controls over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and identified in the following schedule on page 53.
3. No instances of noncompliance material to the financial statements of the Breckinridge County School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Breckinridge County School District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Breckinridge County School District.
7. The programs tested as major programs include:
 - U.S. Department of Agriculture**
National School Lunch
CFDA 10.555
 - U.S. Department of Child Development**
Head Start
CFDA 93.600
 - U.S. Department of Education**
Title I Grants to Local Educational Agencies
CFDA 84.010
Special Education - Grants to States
CFDA 84.027
Special Education - Preschool Grants
CFDA 84.173
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Breckinridge County School District was not determined to be a low-risk auditee.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

B. FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

See schedule on page 53.

C. STATUS OF PRIOR AUDIT FINDINGS

1. It was previously recommended that three bank accounts at Breckinridge County High School operating outside the central fund be closed. While two of the accounts are no longer open, the Tiger Paws activity continued as a standalone operation. A single individual prepared all receipts, processed all payments, signed all checks, prepared the bank reconciliation, and recorded all transactions.

This account was closed in October 2003, and the activity was consolidated with the other activity funds maintained by the high school.

2. Irvington Elementary School's internal controls improved substantially.
3. The amount of property tax revenue transferred from fund 1 to fund 320 during the year met the minimum required under Support Education Excellence in Kentucky (SEEK).

BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
REPORTABLE CONDITION CONSIDERED A MATERIAL WEAKNESS
FOR THE YEAR ENDED JUNE 30, 2003

<i>Condition:</i>	The District failed to account for property in a manner consistent with the requirements of generally accepted accounting principles for governmental entities.
<i>Criteria:</i>	With the adoption of GASB 34, the District is required to account for the purchase of property as expenditures in its governmental funds and in its District-wide financial statements, as fixed assets with corresponding depreciation expense and gains and losses on disposition. The fund-level "700" accounts of MUNIS should include all items required to be capitalized and omit any supplies and small equipment not required to be inventoried. Fixed assets on the District-wide balance sheet must reconcile to the balance at the beginning of the year increased by the balance of property purchases at the fund level and decreased by the original cost of any dispositions.
<i>Cause:</i>	There appears to be a lack of understanding of the GASB 34 requirements and their underlying accounting principles.
<i>Effect:</i>	The classification of supplies and small equipment items was inconsistent, sometimes properly reported as supplies, but often incorrectly included with property. Likewise, major renovations and equipment purchases were often classified as supplies or contractual services. The stated balance of fixed assets was incorrect, depreciation was not properly calculated, and no gains or losses were reported for asset retirements on the District's annual financial report.
<i>Recommendation:</i>	It is imperative that the District takes immediate steps to correct these deficiencies and maintain the correct accounting for property in the future.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF NONMATERIAL NONCOMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2003

<i>Condition:</i>	Two activity funds at Irvington Elementary School ended the year with deficit balances.
<i>Criteria:</i>	The "Red Book" requires that each activity fund end the year with a zero or a positive balance.
<i>Cause:</i>	Subsequent to year-end, accounts payable were discovered, which resulted in deficits.
<i>Effect:</i>	The school may have incurred a violation of a "Red Book" requirement.
<i>Recommendation:</i>	More care should be taken at year-end to ensure that all bills have been accounted for, and if a deficit is anticipated, an allowable fund transfer should be made.

MANAGEMENT LETTER POINTS



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Members of the Board of Education
Breckinridge County School District
Hardinsburg, Kentucky

In planning and performing our audit of the basic financial statements of Breckinridge County School District for the year ended June 30, 2003, we considered the District's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 12, 2003 contains our report on internal controls. This letter does not affect our report dated November 12, 2003 on the basic financial statements of the Breckinridge County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Drane & Company, PLLC
Certified Public Accountant

November 12, 2003

BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2003

PRIOR YEAR

As a follow-up on points noted in the June 30, 2002 audit report, we noted the following:

Processing Claims

The District continued to pay sales tax occasionally. Although improvement continued in the use of receiving reports at the central office and at the schools, some disbursements were made with no evidence of the goods or services having been received. Payment for other than utilities and continuing contracts should require the signature and date of the person having first-hand knowledge of the materials having been received or the services performed, and invoices should be reviewed for the existence of sales tax.

Audit Trail and Grant Funds

For the 2001-2002 year, some federal projects were not coded with the CFDA number while some state projects erroneously contained the CFDA number. This number is important for determining the source of funds and demonstrating that the District understands the related program and its requirements. This situation improved during the current year; however, as noted below, numerous revenue misclassifications were recorded. We recommend continued monitoring of federal programs to ensure compliance with grant requirements.

Interfund Transfers

The effort to segregate transfers between general funds and student funds continued, but it was not always possible to determine if student funds were separated from non-student money. We continue to recommend that more effort be made to ensure the segregation of student and non-student money.

Activity Fund Budgets

Although the computerized school accounting systems incorporate a budget, some schools could not show any documentation of the budget adoption. The "Redbook" requires all schools to submit a budget to the District, thus all schools should have the required budget documentation.

Annual Financial Report (AFR)

Transfers in and out must, by their nature, balance to zero in total. As presented in the AFR, these items remained out of balance and required substantial adjustments. The District should make sure transfers in and out balance before the final AFR is prepared. In addition, transfers in should be coded to the appropriate revenue account and transfers out to the appropriate expenditure account.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2003

Held Checks

Checks were written in advance and on hand at year-end. Security over these "held checks" improved, but they were not added back to cash at year-end as presented in the AFR.

Invoices for some monthly contracts (e.g. copier leases) were requested in advance and included on a single claims list for the Board, and the checks were prepared and held until due. Also, particularly at year-end, some vendors billed for items not shipped or services not provided, and checks were prepared and held pending completion.

While the District is justified in taking steps to minimize its costs, the minutes should reflect the special circumstances. We continue to recommend that other "held checks" be kept to an absolute minimum and thoroughly documented. The preparation of actual checks should be delayed until payment is imminent, and the checks should be dated when payment is made. All required documentation should be present, including original invoice and evidence of receipt of the goods or services.

Fundraiser

For a number of years, the high school Project Graduation has used a fishing tournament as a fundraiser. Each year, the ads and brochures have stated that the entry fee was "tax deductible" when in fact, it was not. Currently, an outside organization has the responsibility for promoting this event. Although the event was held again during the current year, we were not able to determine the wording of any promotions.

CURRENT YEAR

Payroll

Some payments to bus monitors were not included with payroll. This practice may be in violation of payroll regulations and is contrary to the recommendations of the Kentucky Department of Education. Unless the District has authoritative support for an exemption, we recommend that payments to bus monitors be included with other payroll.

A number of employees are paid on contracts with durations of less than a full fiscal year. With the implementation of the direct deposit payroll system, "checks" are recorded on disks and taken to the bank when the employees become entitled to the funds. To facilitate matching the expenditures to the fiscal year in which the wages were earned, several payrolls were transferred to disks prior to year-end and held until July and August when they were forwarded to the bank to be credited to the employees' individual accounts. Similar to the held checks discussed previously, these transfers to disk do not constitute payments until they are available to the employees and out of District control. Although state law requires these disbursements to bear a date prior to the end of the fiscal year, a journal entry should be made to add these amounts back to cash with a corresponding addition to payroll liability.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2003

Processing Claims

Numerous problems were noted in the processing of claims. Of the invoices tested, we observed over \$17,000 in overpayments. This commonly occurred when any balance forward was paid in addition to the current month's charges. When an invoice or statement indicates a balance forward, all necessary steps should be taken to ensure that payment has not already been made.

Cash discounts were not always taken for early payment, and some invoices were subjected to additional charges due to late payment. All invoices should be reviewed for the availability of discounts, and every effort should be made to take advantage of all discounts offered. Likewise, it is imperative that payments be made on time to avoid late charges.

Some payments were made from inadequate documentation such as vendor statements or purchase orders with no supporting invoices. Several payments also appeared to lack documentation of the proper approval or authorization. Payment should be made only from original vendor invoices accompanied by a signed receiving report or packing slip, and invoices should be reviewed and approved by the proper authority.

At times, checks were issued to incorrect vendors, thus the District had to request refunds for the improper payments. The District should make sure that the payee on the check agrees with the vendor name on the invoice before the check is issued.

It is not always possible to match disbursements to the supporting invoices. To maintain a proper audit trail in cases where multiple checks covering several invoices are issued to one vendor, the District should attach the supporting invoices to the disbursement that covers those invoices.

All of the District's blank checks are pre-numbered. Normally, these are used in sequence, and the check numbers recorded in the computer match the pre-printed numbers. However, occasionally these checks were issued manually with the pre-printed number stricken and a new number typed in. Consequently, the payee name, check amount, and check number did not agree with the computer-generated accounting records. This failure to maintain document control effectively removes any audit trail and could permit misappropriation. Pre-numbered checks should be used in order as designed.

Expense Reimbursements

The District's standard mileage reimbursement rate was \$.30 per mile; however, in at least one instance, an employee was paid mileage at the rate of \$.33 per mile. In other instances, employees were erroneously paid because the calculations on expense reimbursement vouchers were not checked. In addition, the District has a policy to reimburse meals at a flat rate but permits the payment of actual expenses under some circumstances. However, the expenditure tested was not supported by documentation of costs incurred. All reimbursement vouchers should be checked for accuracy and adherence to District policy.

BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2003

Fixed Asset Disposal

In May 2002, a mobile unit used at Irvington Elementary School was sold to Breckinridge Memorial Hospital for \$5,000. However, the sale was neither billed nor collected until the Hospital's audit revealed the omission in June 2003. With the implementation of GASB 34, the District is required to account for fixed assets and has employed guidelines for their accountability. The District should adhere to the procedures outlined for the disposal of fixed assets.

Special Revenue

Revenues are frequently misclassified between direct federal funding, indirect federal funding through the state, and state funding. It is recommended that the personnel responsible for coding revenues have adequate knowledge of local, state, and federal programs. Uncorrected, this could become a compliance issue resulting in the loss of future federal grants and possible repayment of current funding.

Personal Purchase through District

A printer was purchased on state price contract and later reimbursed by a District employee. Such a reimbursement arrangement allows the employee to avoid paying sales tax. This practice violates the provisions of the "Redbook" at the school level and should be forbidden District-wide. While some price contracts permit District employees to purchase items for personal use at bid prices, such transactions should be directly between the employee and the vendor.

Annual Financial Report (AFR)

The AFR indicates that no accounts payable existed in any fund at June 30, 2003, and all July 2003 disbursements reduced cash in bank at year-end. The District should ensure that the disbursements are coded to the proper period.

Substantial audit adjustments have been required to permit preparation of the financial statements included in the audit reports. While some minor audit adjustments are often necessary, major changes produce great difficulties, both in reconciliation with the District records and additional audit time. The preparation of financial statements is the responsibility of the District; the function of an audit is reporting on those statements. Accordingly, it is essential that the District makes more of these adjustments internally and makes use of available outside assistance.